

AFFORDABLE HOUSING ADVISORY COMMITTEE REPORT

To: Housing and Community Development Committee Members
Asheville City Council Members

From: Lindsey Simerly, Affordable Housing Advisory Committee Chair
On Behalf of the Affordable Housing Advisory Committee Members

Date: February 6, 2014

Subject: Affordable Housing Program

Summary

The City of Asheville Affordable Housing Advisory Committee (AHAC) has spent the last six months preparing affordable housing recommendations for review by the Housing and Community Development (HCD) Committee and Asheville City Council.

The AHAC offers these recommendations in support of Goal 1 Focus Area 2: Affordable Housing and Community Development, in Council's 2013-2014 Strategic Plan: Increase the number of affordable housing units within the City limits to encourage density, affordability and access to economic prosperity.

After an initial section called "Background" the report is divided into two (2) main sections and is followed by a "Staff Report."

The two main sections for City Council consideration are:

CRITICAL SHORT TERM GOALS

Recommended by consensus of the AHAC Committee. These goals, if adopted, will immediately impact the quantity and quality of affordable housing in the City of Asheville.

ADDITIONAL RECOMMENDATIONS

All of the recommendations provided by AHAC Committee members. These recommendations are important and should be included in the City's master planning efforts so that they can be addressed over the next 3-5 years.

Background

The Affordable Housing Advisory Committee's continues to pursue objectives contained in its work plan.

Two of the Committee's highest priorities are to (1) increase allocation of the Housing Trust Fund (HTF) to .01 for every \$100 of City Property Tax Value, and (2) allow for and/or incentivize higher housing density. To that end, Committee activities starting in mid-2013 focused on obtaining input from stakeholders, particularly housing developers, to better understand any barriers to private sector investment in the development of affordable housing in the City of Asheville.

The recommendations contained in this report are preliminary, and are being made available in time for City Council retreat discussions. The AHAC Committee may revise or add new recommendations once the "Asheville Affordable Housing Scorecard" (which will compare Asheville's affordable housing program to

comparable cities and best practices), a housing needs assessment, and a housing market study are completed during spring / summer 2014.

CRITICAL SHORT TERM GOALS

Recommended for immediate action by City Council. Goals are of equal priority, not in order of priority.

GOAL #1:

The City's Housing Trust Fund should be increased starting in budget year 2014-2015 until it reaches the goal of 1¢ per \$100 assessed value of all property in the City.

GOAL #2:

The City of Asheville should increase density for affordable housing throughout the City, and should change land use regulations to encourage affordable housing in more zoning districts. All city boards and commissions should be tasked with developing policies, programs, and procedures that will increase density in our City to provide needed tax base and encourage more affordable housing. Existing density bonuses need to be preserved and enhanced. If density bonuses available under the UDO are not being used for affordable housing, we should find out why and fix any barriers.

GOAL #3:

Permit and other development fees for affordable housing projects should be waived in full (100% waived). 100% waivers should be applied in full at the front end of the project and not be subject to a rebate system.

GOAL #4:

A cost sharing plan for utilities, roads, sidewalks, and other infrastructure should be offered for affordable housing development. Just as the City improves infrastructure in existing neighborhoods within the City budget, there should be a line item for sharing the infrastructure costs with developers who are engaged in increasing the affordable housing stock and investing in our citizens who work at lower wage jobs.

GOAL #5:

Increase land available for affordable housing. Evaluate currently owned City property and make available for affordable housing development. An affordable housing land bank should be created to hold land in reserve in strategic areas (near transit lines, grocery stores, services, etc.). Land for development can be offered through a competitive bidding process. The land bank should focus on properties that would make local projects more competitive for state and federal tax credit awards. Additional funds should be identified for this purpose. Preserve the existing housing trust fund in its entirety (and preserve as it increases to 1¢ per \$100 assessed value of all property in the City) for investment in development that is ready to go.

Summary of All Committee Member Recommendations

A list of all Committee recommendations is provided below.

1. The City's Housing Trust Fund is a primary affordable housing funding tool that should be increased until it reaches the goal of 1¢ per \$100 assessed value of all property in the City.
(Included as a CRITICAL SHORT TERM GOAL)

2. Additional ways to improve funding availability for affordable housing should also be considered, including:
- a. New funding for affordable housing land acquisition and/or land cost write-downs should be established. If land acquisition becomes a priority, additional funds should be identified for this purpose. Preserve the existing housing trust fund in its entirety (and preserve as it increases to 1¢ per \$100 assessed value of all property in the City) for investment in development that is ready to go. **(Included as a CRITICAL SHORT TERM GOAL)**
 - b. Consider an interest rate reduction on Housing Trust Fund loans if the developer is serving the very low income. For example, consider reducing the 2% interest payment on Housing Trust Fund loans to 0% if the units are affordable to 30% of median income or below, and to 1% if the units are available to 50% of median income or below. This strategy will encourage the development of units that would be available to formerly homeless households or households in danger of homelessness.
 - c. Evaluate currently owned City property and make available for affordable housing development.
 - d. Consider an affordable housing land bank to hold land in reserve in strategic areas (near transit lines, grocery stores, services, etc.). Land for development can be offered through a competitive bidding process. The land bank should focus on properties that would make local projects more competitive for state tax credit awards. **(Included as a CRITICAL SHORT TERM GOAL).**
 - e. Waive all permit, review and development fees for affordable housing projects (not as a rebate, but waived initially when the fees would otherwise be charged). **(Included as a CRITICAL SHORT TERM GOAL).**
 - f. Shift funds, if necessary, to the building permit division to cover affordable housing fee waivers so they are not considered to be reductions in that division's budget.
 - g. Evaluate the effectiveness of property tax reductions.
 - h. Evaluate the feasibility of using tax increment financing or New Market tax credits for affordable housing.
 - i. Hold a bond referendum for affordable housing funding.
 - j. Consider creation of an affordable housing development corporation.
 - k. Implement a cost sharing plan for utilities, roads, sidewalks, and other infrastructure for affordable housing development. Just as the City improves infrastructure in existing neighborhoods within the City budget, there should be a line item for sharing the infrastructure costs with developers who are engaged in increasing the affordable housing stock and investing in our citizens who work at lower wage jobs. **(Included as a CRITICAL SHORT TERM GOAL)**

3. Make local funding decisions for rental housing programs consistent with the North Carolina Housing Finance Agency (NCHFA). NCHFA provides the majority of funding for affordable rental housing in our state by offering reduced fee loans and tax credit equity. These funds match local funds in the range of \$5-12 dollars per local dollar and are critically needed. Asheville can gain 50-80 units of affordable housing per year consistently if local programs are properly matched to the state's program.
 - a. New requirements for NCHFA programs require any affordable housing developer (public or private) to decrease their request for state funds and tax credits. It's a clear "race to the bottom" whereby the least amount requested per unit from NCHFA gets the tax credit equity and state loans.
 - b. Asheville is only going to be successful gaining tax credit funds if local funds are found to make up for the decrease in state funding. Asheville was recently placed back into the "metro" region at NCHFA meaning that we now compete with Raleigh, Charlotte, Durham, Greensboro, Wilmington, and Winston-Salem for these critical tax credit dollars.
 - c. The only way to increase the City's competitiveness in this program is to provide more local funds in the form of reduced interest loans, fee waivers, Housing Trust Fund interest reductions, and density bonuses. The City should double the amount that is currently budgeted for affordable housing to always be more competitive statewide.
4. Increase community education and awareness regarding affordable housing. Link affordable housing with our workforce to encourage community support. Make citizens aware that the individuals brewing their coffee and beer, serving them in restaurants, helping them get well in the hospital, and checking them out in the grocery store cannot afford to live in Asheville.
5. Consider affordable housing development incentives based on a sliding scale rather than meeting a single measure standard. This may allow more flexibility and ability to respond based on specific project characteristics.
 - a. The City should preserve or create additional affordable housing units by marketing the availability of Housing Trust Fund for rehabilitation projects. This would also help to preserve the stability of established neighborhoods that are often close to transit corridors. However, the creation of new units should always be a priority.
 - b. Set a specific target number for the creation / construction of new affordable housing units per year as a mechanism to clearly evaluate progress.
 - c. A comprehensive affordable housing financial strategy should be developed that is directly tied to financial support needed to meet the City's affordable housing annual targets.
 - d. The City should consider funding a mix of projects from different developers to encourage more competition for Housing Trust Funds and to generate a greater variety of project proposals.
6. More discussion is needed regarding neighborhood opposition to infill affordable housing and what should be done to resolve related conflicts. At a minimum, the eligibility criteria and decision-making standards for protest petitions should be reevaluated.

7. Consider making changes to Accessory Apartment development regulations intended to ensure compatibility with existing structures:
 - a. Adjust setbacks for accessory units to match the existing envelope of the primary structure. Homes in older neighborhoods (often close to downtown) are often positioned either on or very near to property lines, and such an adjustment would increase the number of properties where accessory apartments could potentially be created.
 - b. Consider adjusting or eliminating the regulation that limits accessory units to 50% of the size of the primary structure, especially on properties where the accessory unit will be created within the envelope the primary structure.
 - c. Consider waiving sewer and water tap fees when creating a unit within the existing envelope of the primary structure, especially if the Metropolitan Sewerage District (MSD) and the City's Water Department don't have to install any new lines or add any new meters.
8. Consider changes to development regulations related to height and bulk (i.e. – setbacks, lot size, etc.) that would promote infill affordable housing development.
9. Develop a strategic multi-year plan to gradually increase the target number of new affordable housing units over time.
10. Allow increased density for affordable housing and change land use regulations to allow affordable housing in more zoning districts. All city boards and commissions should be tasked with developing policies, programs, and procedures that will increase density in our City to provide needed tax base and encourage more affordable housing. Existing density bonuses need to be preserved and enhanced. If density bonuses available under the UDO are not being used for affordable housing, we should find out why and fix the problem. **(Included as a CRITICAL SHORT TERM GOAL)**
11. Provide incentives to build affordable housing on transit lines. The current 1/8 mile double density as a use by right (Sustainable Development Projects) is not being used much (if at all.) Do not abandon this policy, but find out what improvements need to be made so it can work. There are many areas that this policy should be working right now (for example Haywood Road in west Asheville).
12. Make the development review and permitting process more predictable; reduce discretionary review that disrupts project design and financing at late stages of the approval process.
13. Use the Chapel Hill ordinance as a model to adopt an "expectation" of affordable housing units, expressed as a percentage of total units.
14. Consider establishing relaxed requirements related to open space, sidewalks, landscaping, etc. for affordable housing in locations where it makes sense.
15. Consider establishing incentives to rehabilitate and convert existing market housing units into affordable housing units.

16. Consider a comprehensive review of the City's development regulations (zoning code, subdivision regulations, building codes) that would review, at minimum, the specific regulatory issues identified during the Developer Interviews. Resolution of these issues should also take into account other city goals and objectives.
17. Consider broader measures that increase the development of all types of housing within the City. Increased housing supply will help to counteract rising housing sales and rental prices.

ADDENDUM: COMMUNITY DEVELOPMENT STAFF REPORT: DEVELOPER INTERVIEWS

Summary

The City of Asheville Affordable Housing Advisory Committee (AHAC) conducted a series of affordable housing developer interviews during fall 2013. The results of the interviews are now available. This report provides some suggestions regarding common issues identified by the interviewees, and topics and priorities the Committee may want to consider as recommendations to City Council are prepared.

Background

The Affordable Housing Advisory Committee developed a list of 30 housing developers considered to be candidates for interviews to discuss affordable housing development, regardless of whether or not each candidate had actually developed an affordable housing project. The purpose of the interviews was to obtain feedback regarding primarily private investment and development of affordable housing, with specific interest in understanding the factors that could stimulate a higher level of private sector development of affordable housing inside the City of Asheville. An interview format was developed to obtain feedback on issues of concern, suggestions for improvements, and the relative importance of several factors that potentially influence affordable housing development decisions. All interviewees were asked to focus on affordable housing issues that could be addressed locally by the City of Asheville.

Suggested Topics for Committee Consideration

Based on the results of the interviews, staff suggests that the developers identified two broad categories of issues that have significant influence on affordable housing development: **Financing and Production**. This is supported by the actual comments received as well as the topic rankings collected at the end of the interview.

Affordable Housing Financing

Financing determines feasibility – if the financing doesn't work, the project dies at the planning stage. Committee recommendations could address the following issues:

1. Land Cost

Land cost was cited frequently as an important cost issue. Some land is available for affordable housing development, but as the economy improves many felt that land costs are likely to escalate. Some developers are already exploring sites in neighboring counties as a cost reduction measure. Some suggested that the City acquire land (or designate current City-owned property) for affordable housing development and offer the land for development through a competitive bidding process, or provide public funding for land cost write-downs.

2. Infrastructure Costs

The cost of infrastructure was cited as an important cost factor. Many said that City participation in infrastructure cost sharing had decreased over the years. Others wanted staff to have some administrative flexibility to waive some requirements. An example given was the requirement to dedicate rights-of-way, install curb, gutter, and sidewalks for infill lots in an existing neighborhood where most of the developed lots did not have such features and there was little chance the existing street would ever be widened.

3. Funding Programs

Many interviewees suggested funding program changes that involved increases to the City's Housing Trust Fund, funds for land acquisition, fee waivers (rather than fee rebates), property tax reductions, use of tax increment financing or New Market tax credits specifically for affordable housing, and affordable housing infrastructure capital funds. Some interviewees felt that the same people are always awarded existing available grant funds year after year. Others were not aware of the full extent of existing funding programs, suggesting the need for better outreach and marketing.

4. Density

As a cost factor, increased density was mentioned frequently as a way to allow more housing units in the same area of land. Several city requirements such as setbacks, tree save, and open space require larger lots and drive affordable housing costs up. Many wanted some zoning districts to be reexamined to allow higher densities, particularly in light of the smaller home footprints associated with affordable housing.

5. Proximity to Transit Services

Although not a direct cost factor typically associated with an affordable housing development project, several interviewees were clearly cognizant of the need to find property within ½ mile of a transit line. The relationship between housing cost burden and household transportation costs is important enough to impact lending and underwriting standards, according to several of the developers. The committee may want to make a recommendation regarding future City transit system and extension investments.

6. Permit Fees

Because the profit margin for affordable housing development is much slimmer than for market or up-scale housing, several interviewees felt that permit fees can make a difference in a project's financial feasibility. Many interviewees felt that permit fees for affordable housing should be eliminated or at least reduced, with the benefit being upfront rather than in the form of a rebate.

Affordable Housing Production

Once the decision has been made that an affordable housing project is financially feasible, the actual follow-through and production of the housing units becomes a matter of obtaining governmental approvals potentially ranging from zoning to building inspections, staying within budget, minimizing carrying costs, and meeting construction schedules. Three primary subject areas of concern became apparent during the interviews – **Land Use Policies & Regulations, Development Review & Permitting, and Neighborhood Opposition.** Despite the concerns listed below, most of the interviewees were highly complementary of the dedication and customer service shown by City staff, and noted that past efforts to improve application processing were noticeable and helpful.

Most cities experience some level of tension between public regulators and the development community, and Asheville is no different. As part of any recommendations the Committee may want to consider regarding the issues below, staff would suggest that such recommendations be made within the context of the City Council's Strategic Operating Plan to enable the comprehensive evaluation of affordable housing and other important City priorities. Committee recommendations could address the following issues:

1. Land Use Policies & Regulations

The broad sentiment regarding land use policies and regulations was that of a disconnect between the City's affordable housing policies and the regulations governing actual development. Many interviewees want better predictability, less discretionary review, and clear and concise evaluation criteria when discretionary review is required.

Specific Policy Comments

As a general observation, most of the interviewees were pleased that affordable housing is a top priority of the City of Asheville. Only a few comments related to suggested policy changes. One concept mentioned more than once was the creation or establishment of geographic districts where affordable housing would be encouraged. The City could then assist in any necessary property rezoning applications and provide funding program assistance to stimulate affordable housing development. Staff would not recommend that the Committee support such a move due to concerns potentially related to fair housing, concentration of low income households, and discrimination, not to mention the complexity of effort that would be involved.

Examples of Specific Regulatory Comments

The City is currently engaged in a number of land use and development strategies, and the Committee may want to ask for a comprehensive review of the City's development regulations (zoning, subdivision regulations, and building codes) and their impact on affordable housing. It is quite clear from the comments received that developers of affordable housing see changes in City development regulations as far more important than changes in development review processing.

Some examples of issue-specific comments received are listed below:

- Driveway Aprons – overkill and expensive
- Sidewalks along perimeters of all street frontage whether practical or not create high costs
- Water/Sewer fees very expensive. Consider eliminating for affordable housing
- Curb and Gutter – Not an effective or environmentally sound way to convey storm water or improve water quality...and expensive
- Stormwater Management – City standards in excess of state standards drives cost up. Suggest City Collective watershed measures (with a fee to pay into as developed) versus individual project systems that are costly, have maintenance challenges and are ineffective
- Open Space / Tree Save standards – not required in the county. Requires expensive and good usable land and adds a liability to new neighborhoods especially if they are in bigger networked neighborhoods where open space and parks already exist
- Private drive requirements should be lessened and sharing should be encouraged
- Reduce public road standards to minimum fire code standards
- Stormwater pipe sizes in yard should be reexamined
- No public storm infrastructure – with City not having any storm water systems it makes this a liability to neighborhoods)
- Subjective approval process
- Lot size – square footage is too high / more affordable homes could be built on lesser sized lots
- Street Light requirements (added expense and many neighborhoods don't want it)
- Regulations that require engineering services should be reexamined
- City regulations need to promote infill, which really helps affordable housing production
- Cottage regulations could be revised slightly to be more usable

- Increase staff level authority to approve slight or minor deviations from the regulations
- City should reevaluate maximum accessory unit size (floor space minimums)
- More aggressive reuse of vacant, boarded-up properties
- Consider incentives with sliding scales, i.e. – from 15% to 100% affordable units
- Some UDO requirements (i.e. – setbacks) get in the way when trying to achieve density bonuses tied to affordable housing

2. Development Review & Permitting

When development review and permitting issues were raised by interviewees, they were asked for specific problems that could be identified. Based on the responses, very few specific issues or suggestions were made. It also seemed that several concerns associated with City review and inspections staff were really concerns with adopted regulations deemed to be impediments to affordable housing.

Some examples of related comments received are shown below:

- Ease of Access – if there was a lead city contact assigned to “walk” developers through the process, it would help a lot (developers currently have to work with several different departments in a fragmented manner)
- Fire Marshal’s / City’s interpretation of fire code requirements - the County and other areas in state are not requiring / interpreting the same.
- Fees – Eliminate them for affordable housing

3. Neighborhood Opposition

Although not mentioned as an issue that attracted several improvement suggestions, neighborhood opposition was raised as an issue that was important during the planning stage and also during the regulatory phase of gaining governmental approvals. If a potential development site requires rezoning, most developers will assess potential neighborhood opposition and might discuss their intent with neighborhood representatives informally. If the risk of undue delay or rezoning denial appears significant, they will reject the property as a potential project site – quietly and before any significant investment is made. Those who have participated in a rezoning or other approval requiring a public hearing generally felt the process was unfair and stacked in favor of the neighborhood. Staff has identified this as a concern arising from the interviews, but does not have any suggestions for a Committee recommendation, other than to raise it as an issue deserving further discussion.

An example of a suggestion for improvement included:

- Protest petition should be reevaluated – reasons for eligibility should be tightened.

- **END** -